

Message Text

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ACTION EB-11

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EUR-25 CIAE-00 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04

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EO 11652 GDS

TAGS: BDIS

SUBJ: CADILLAC GAGE PROBLEM WITH GOL

REF: DAO 962

SUMMARY:

CADILLAC GAGE'S NEGOTIATIONS WITH GOL FOR SALE
30 ARMORED CARS HAS REACHED IMPASSE. CADILLAC GAGE
INCREASED PRICE AFTER GOL HAD ACCEPTED SEEMINGLY OPEN
ENDED OFFER OF JAN 73. PRES FRANGIEH'S
PRESTIGE INVOLVED AS HE HAD OFFERED ACCEPTANCE
AMERICAN FIRM'S OFFER DESPITE IT BEING HIGHER THAN THAT
OF PORTUGUESE FIRM BRAVIA. GOL REQUESTED EMBASSY'S INTERVENTION.

ACTION REQUESTED: DEPT DISCUSS WITH CADILLAC GAGE.

1. AS DEPT IS AWARE, CADILLAC GAGE HAS BEEN NEGOTIATING
PAST TWO YEARS WITH GOL FOR SALE OF 30 COMMANDO
ARMORED CARS FOR LEBANESE GENDARMERIE. SITUATION HAS
DETERIORATED TO POINT WHERE PRESIDENT OF REPUBLIC'S
PRESTIGE IS INVOLVED IN DISPUTE OVER PRICE IN FOL FASHION.
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2. GENERAL GHANEM, COMMANDER OF THE ARMY, SIGNED AN UNDERTAKING WITH PORTUGUESE COMPANY BRAVIA (STATE 218013) IN DEC 72 FOR PURCHASE ARMORED CARS. PRES FRANGIEH SUBSEQUENTLY OVERRULED GHANEM'S DECISION MAINTAINING THAT CONSISTENT WITH HIS POLICY OF CLOSE RELATIONS WITH THE UNITED STATES, HE WANTED PURCHASE EQUIP FROM U.S. COMPANY. TO MAKE OFFER MORE COMPETITIVE WITH THAT OF BRAVIA, CADILLAC GAGE SUBMITTED NEW OFFER JAN 1973 BASED ON \$48,987 UNIT PRICE. ALTHOUGH BRAVIA'S TOTAL PRICE STILL \$387,000 LOWER THAN CADILLAC GAGE TOTAL PRICE, THE PRESIDENT NONETHELESS INSTRUCTED MINDEF TO ACCEPT AMERICAN FIRM'S OFFER AND IN LATTER PART OF AUG THE COUNCIL OF MINISTERS AUTHORIZED MIN OF DEFENSE TO CONSUMATE DEAL. GOL REQUESTED CADILLAC GAGE TO SEND AN OFFICIAL TO SIGN CONTRACT WITH NO PRICE INCREASE. THE JANUARY OFFER HAD NO TERMINAL DATE AND AT NO TIME PRIOR TO THE COUNCIL OF MINISTER'S MEETING HAD THE COMPANY INDICATED THAT THERE WOULD BE A PRICE CHANGE.

3. CADILLAC GAGE RESPONDED BY RAISING PRICE \$5,000 PER UNIT EXPLAINING AMOUNT REFLECTED INCREASED PRODUCTION COSTS SINCE JAN. THE LOCAL US REPRESENTATIVE ON HIS OWN INITIATIVE PERSUADED COMPANY TO REDUCE THE OFFER TO \$50,702 PER UNIT.

4. PRES FRANGIEH WHO WAS ONLY RECENTLY INFORMED OF INCREASE, IS NOW EXTREMELY UPSET. HE CONSIDERS THE COMPANY HAS TAKEN ADVANTAGE OF HIS DECISION TO BUY AMERICAN AND TO THUS GIVE A VIRTUAL MONOPOLY TO CADILLAC GAGE RE ARMORED CARS BY INCREASING ITS PROFIT MARGIN. ALTHOUGH THIS IS PRESUMABLY NOT TRUE, IT WILL BE HARD TO CONVINCE PRES GIVEN FACT THAT GOL HAD BEEN GIVEN SEEMINGLY OPEN ENDED OFFER AND COMPANY HAS GIVEN NO INDICATION THERE WOULD BE A PRICE INCREASE UNTIL AFTER GOL MADE ITS DECISION TO ACCEPT ORIGINAL CADILLAC GAGE OFFER.

5. MATTER WAS RAISED WITH EMBASSY BY MIN OF DEFENSE WHO SOLICITED OUR ASSISTANCE TO RESOLVE PROBLEM. MINISTER MADE CLEAR GIVEN NATURE OF OFFER AND INVOLVEMENT PRESIDENT, GOL COULD ONLY ACCEPT ORIGINAL OFFER. WE ARGUED THAT THERE

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NO QUESTION PRODUCTION COSTS HAD INCREASED SHARPLY DURING PERIOD UNDER REVIEW AND THIS SOLE REASON FOR MODEST INCREASE IN PRICE OF EQUIP. HE MAINTAINED HOWEVER GOL COULD NOT ACCEPT INCREASE AS PRES HAD AUTHORIZED ACCEPTANCE OFFER IN GOOD FAITH DESPITE ITS BEING HIGHER THAN BRAVIA'S AND COULD NOT NOW RESUBMIT EVEN HIGHER FIGURE FOR COUNCIL'S APPROVAL.

6. WE HAVE ALSO DISCUSSED MATER THOROUGHLY WITH BOTH THE COMPANIES' LOCAL AGENT AND ITS AMERICAN REPRESENTATIVE. THE LATTER'S ATTEMPT TO PERSUADE THE COMPANY TO HOLD TO THE ORIGINAL OFER WAS UNSUCCESSFUL, AND WAS TOLD COMPANY WOULD REQUIRE FURTHER INCREASE BY END NOV.

7. ALTHOUGH LACKING LEGAL EXPERTISE WE WOULD THINK THAT ON LEGAL GROUND ALONE THE COMPANY WOULD BE VULNERABLE BY CHANGING THEIR PRICE AFTER THEY HAD MADE AN OFFER WITHOUT A TERMINAL DATE AND WITHOUT WARNING THE GOVT THAT A PRICE INCREASE WAS LIKELY. OF EQUAL IMPORTANCE, GIVEN FACT THAT PRES FRANGIEH'S PERSONAL PRESTIGE IS INVOLVED, WE FEAR THAT THE COMPANY'S REPUTATION IN LEBANON AND PERHAPS IN THE MIDDLE EAST IS GOING TO BE SERIOUSLY DAMAGED IF THEY DON'T STAND BY THEIR ORIGINAL OFFER. CONSEQUENTLY, IN LIGHT OF THESE FACTORS, UNLESS OBJECTIONS PERCEIVED, WE RECOMMEND THAT DEPT BRING FACTS OF CASE TO ATTENTION OF CADILLAC GAGE AND RECOMMEND THAT THEY MAINTAIN THEIR ORIGINAL OFFER. BUFFUM

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